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AMERICAN EXPORT POLICIES

BY FRANKLIN JOHNSTON,

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American success in exporting, too often depreciated and ignored, has been won largely by manufacturers of highly specialized lines—individual, distinctive merchandise, or machinery sold under brands. I speak advisedly for daily I am in close touch with the export work of over six hundred manufacturers of such lines doing a substantial foreign business, many of whom have been doing so for years.

A recent census of these manufacturers, for whom and with whom we are working, showed that the average rating is \$298,000, as listed in one of the mercantile agency books. Of these 18 per cent are rated up to and over \$1,000,000 each; 50 per cent at less than \$100,000 and 20 per cent at less than \$35,000. This is of interest as showing that the small manufacturer of distinctive articles is under no insurmountable difficulties in export trade.

In South America, the three chief export competitors meet on more nearly equal terms than anywhere else in the world. There has been a greatly exaggerated idea in this country of the extent to which Germany dominated the markets of South America, before the war. That she had a very large and important share of that trade cannot be denied, but it was no larger than our own, and not as large as Great Britain's. The United States exports more merchandise to Latin America than does any other nation. Here in the briefest possible form is the record of Latin American trade in 1913:

Exports to Latin America from the United States, \$325,837,345.

Exports to Latin America from Great Britain and Ireland, \$322,228,073.

Exports to Latin America from Germany, \$217,967,202.

The margin over Great Britain is somewhat slight to be sure, but over Germany, of whose export prowess we hear so much more than of Great Britain's, it is in round figures \$100,000,000. Our exports to the Argentine have grown from less than \$10,000,000 in the year 1902 to over \$50,000,000 in 1913, while those to Brazil grew

from \$10,000,000 to \$42,000,000, and those to Uruguay from \$1,500,000 to \$7,500,000.

Instead of having a negligible share of the trade to those countries as many would have us believe, we supply Argentina with 15 per cent of all she buys, while Great Britain furnishes her with 30 per cent, and Germany supplies 16 per cent. Of Great Britain's exports to Argentina one-fifth is coal alone. In the case of Brazil we sell her 15 per cent of her total imports as against 25 per cent from England and 17 per cent from Germany, Germany's export trade with Brazil being \$4,000,000 larger than our own.

Our trade with these countries has grown hand in hand with that of Germany and Great Britain. If a chart is drawn showing the growth of the export trade of the three great rivals in either Argentina or Brazil for the past ten or fifteen years the general curve upward of the English lines will be paralleled, somewhat below to be sure, by the American and German, and the German and American lines will touch and even cross each other, at times, so close has been the rivalry.

Under normal conditions we have, therefore, as large an export trade with Argentina and Brazil as Germany, and that trade has grown just as fast, indeed at times faster, than that of either Germany or Great Britain. It must be said, however, that Germany's trade is more diverse than either Great Britain's or our own.

What, then, is the reason for the persistent popular impression that our trade with South America is negligible?

That impression is founded on the fallacy that American ships and foreign branches of American banks are a necessary *preliminary* to extending American trade. American manufacturers are under no handicap as regards shipping and banking in developing their trade with Latin America. When American manufacturers find themselves unable to sell abroad the fault usually lies not with the ships and banks but with the goods, the costs of production, or inefficient selling methods.

British export trade is won chiefly by quality; German, by cheapness; American, by inventive and mechanical genius plus large-scale production, which makes for moderate prices. Each of the three competitors has strong points, and each has weak points. British quality usually means high cost, and, when durability is aimed at, often means a solidity that is carried to an absurd degree.

The competing American article is lighter, more graceful and cheaper. The competing German article is too often an imitation of the British or American sold at a much cheaper price, and on terms which an Argentine gentleman spoke of some time ago as "insane credits." Price is the poorest sales argument, and people have almost forgotten that many German lines had far better claims to distinction. German export success has been marvelous but it has not been altogether a healthy growth. "Made in Germany" has come to convey the sense of cheap, shoddy goods, and even of imitations.

This has been recognized nowhere more than in Germany. In 1913, a "German Export Association of High Quality Manufacturers" was formed to combat the cheap price reputation of Germany abroad and its ideal at home. Its president said:

The systems of the English, French, but principally of the American and Swedish trade, have been based from the very start on the prestige and standing of the manufacturer, who must always take the responsibility for quality and reasonable prices of his products. Against the strong organizations of foreign manufacturers, small industries prevail in Germany which do not strive so much for quality as for cheap prices. . . . German manufacturers apparently know of only one argument, and that is low prices. But when prices decrease, quality also becomes inferior.

Another serious fault in German export methods has been an unwise over-extension of credits.

The "long" credits of South America have been greatly exaggerated in American discussions. So has the alleged refusal of American manufacturers and merchants to extend credits. As aptly phrased by the president of the United States Steel Corporation, Mr. James A. Farrell, who for many years was at the head of that corporation's export subsidiary:

Wherever there is a substantial basis for credit, American manufacturers will not be found lacking in devising means to grant reasonable and proper accommodations. It will be invariably found that where extended credits are given, the seller charges an increased price, and the buyer does not benefit to the extent to which prompt payment entitles him.

Not only does he pay an increased price, either visible or invisible (by decreased quality), but the whole structure of commerce in any given market is shaken when credits are given unwisely, for sooner or later such over-extension brings about a smash. This occurred in South America, notably in Argentina and Brazil, and

those countries which were just recovering from the effects of wholesale liquidation and bankruptcies, similar to some of our own financial depressions, when the war broke out. Commercial failures in the Argentine in 1913 were twice as large as in 1912, three times as large as 1911, four times as large as 1910. The opening months of 1914 showed a still greater commercial mortality, and the total liabilities for the year were more than double those of 1913. This financial disturbance came as a result of easy credits at a time when land speculation had become almost a mania, the bubble being pricked by a series of bad crops. American conservatism in granting credits has been justified in part at least by such events, and German eagerness to extend unwise credits has proved disastrous alike to her and her debtors.

To a large extent, the financial crisis before the war and the rapid changes brought about by the war have brought a new commercial generation in the Argentine. Old houses have liquidated, partners retired, old connections been severed, new ones formed, new houses opened. This new generation cannot buy German goods, nor even the allotted amount of British or French, and will necessarily buy American goods. Germany's unwise credits have fallen like a house of cards and in the reconstruction of the commercial structure she will have no part for some time to come. When Germany again competes for South American business it will be on a far healthier basis, with less talk of cheapness and more of quality, and with far more conservatism in extending credits. Meanwhile the virtues of slightly more expensive competing American goods will be established. This change in Germany's export policy was inevitable sooner or later but it has been hastened by the war, and the war has enormously intensified the lesson of over-extension.

Mention has been made of the application of the Sherman law to export trade. As we know, combinations to control output and fix prices in many staple lines sold on a close competitive margin of price, and not capable of being exploited along the lines that highly specialized lines are, are permitted and even encouraged in Europe. Such lines as manufactures for further use in manufacturing, and crude materials—steel, copper, wire nails, cement, cheap paper, cordage, etc.—might be mentioned. It would seem as though our manufacturers in such lines ought not to be forced to act under legal

restrictions to which their foreign competitors are not liable, provided unfair practices were not employed.

The Clayton Act as originally drawn would have made illegal nearly every customary method of developing export trade. These methods are not peculiar to this country, but are world-wide. Their morality is, it seems to me, not to be questioned. They comprise ordinary agreements under which patented articles may be sold, and both maker and dealer, or agent, protected. A vigorous nation-wide protest from small manufacturers as well as large ones, resulted in export trade being specifically exempted from the provisions of the Clayton Act.

Recently the federal courts have found for the defendants in a number of actions brought by the government under the Sherman law. Among such decisions was that in the case of a number of steamship lines operating to Brazil. Freight is a commodity, no less than steel rails or copper. To allow steamship owners to combine to fix freight rates on steel products, and to forbid steel products manufacturers to combine to fix prices on their products is, on the face of it, absurd and unjust. Its absurdity is hardly diminished by the fact that most of the steamship lines are owned abroad, so that American manufacturers, "trusts" or "independents," are encouraged to practice cut-throat competition, while the steamship lines maintain profitable freights, and share the benefits with foreign buyers and foreign manufacturers who are allowed to take joint action as they see fit.

Disappointment has been expressed because small manufacturers show such a lack of interest in the arguments urging the benefits of combination for export trade. This may be attributed to the fact that small manufacturers of highly specialized lines, of articles sold under brands or trade marks, such as engines, machinery, typewriters, shoes, sewing machines, haberdashery, automobiles, bicycles and scores of other lines have never felt the need of such combinations for themselves, although they may be in favor of them in principle. In short, the small manufacturer may recognize the force of the arguments, but the subject has an academic interest chiefly. He has succeeded in export business by individual effort. The difficulties of forming a coöperative export organization in certain lines would be almost insurmountable, with no guarantee that the results would be satisfactory. A poorly managed combina-

tion would break down under its own weight, as many "trusts," department stores and chain-store organizations have, while their more efficient, though smaller, rivals have prospered. Hence, it may be doubted whether express governmental permission to combine for export trade would meet with any immediately marked response from small manufacturers of specialized lines. This is not to deny that the instinct of avoiding ruinous competition is not growing in strength.

Inadvertently, much of the discussion on this topic has given an entirely erroneous impression as to the difficulties "small" manufacturers have to contend with in establishing an export business. It will be found that ample facilities for export distribution are available for the manufacturer of specialized lines. For such lines, large initial expense to develop foreign trade is rarely necessary, or even advisable. Elaborate foreign selling organizations for the average manufacturer would not only be unnecessary, generally speaking, but positively detrimental, because the important distributing factors would be antagonized at the start, and would be in a well intrenched position to retaliate.

In England, Germany and the United States there are numerous facilities to help manufacturers in their export distribution, where the manufacturers are not in a position to do—as, of course, they very rarely are in a position to do—all the distributing. Large importers act as local distributors. The average manufacturer receives more or less of his export orders from the importers, not direct but through the export commission houses, although he works up the business direct by some form of solicitation.

Even when a manufacturer employs one or more foreign travelers many of the orders are passed through the hands of the export commission houses, and paid for by them, and in some cases manufacturers insist on all orders being so handled. Where export orders are paid for by the export commission merchant, for the account of foreign importers, it becomes as nearly cash business as the American manufacturer can secure at home or abroad. Although the tendency to do a direct business is constantly increasing—and in some markets, such as certain European ones, is the rule rather than the exception—very many importers, as well as manufacturers, prefer this method of business and probably always will.

The proportion of export business passed through these houses

as brokers, so to speak, depends on the character of goods, character and location of market and various other circumstances. No set rule can be made to apply. In London there are 1,596 export merchants; in Hamburg, 1,189, while in New York there are 605 export commission merchants, 180 buying offices for foreign merchants or industrial concerns and 128 manufacturers' export agents or managers. Export agents perform many of the functions of the commission houses, but are paid by the manufacturer instead of by the foreign merchant. In recent years there has been a marked tendency for the commission houses to take up special agencies. It will be seen, therefore, that in all three countries the export merchant is a distinct factor and that he is no less in evidence in England and Germany than here. Yet the very existence of the export commission houses is all but ignored by the American government officials in discussing foreign trade, and this has caused a good deal of misunderstanding.

The establishment of branch offices or warehouses abroad on the part of manufacturers is the exception, not the rule, in export trade. A theory that manufacturers must open branch houses in all the world's markets, in order to do business, would lead even the more than average sized manufacturer to bankruptcy. American export trade in manufactured goods is shared by thousands of manufacturers, big as well as little, little as well as big, and of those thousands it is doubtful whether more than twenty have their own local branches, carrying stocks, in Buenos Aires, for instance. With rare exceptions, the manufacturer, British, German and American, whatever his size, finds it more economical and more profitable to let others perform some of the functions necessary to get the goods from factory to foreign consumer. No manufacturing corporation, however large, has its own sales organization in all markets, although two or three come very close to it, including one American oil company and one American sewing machine company.

In Buenos Aires, for instance, there are just forty-four American business houses other than industrial plants. These forty-four comprise all the American dealers, the American importers and exporters, as well as the local branch offices of American manufacturers. There are one hundred and sixty-three British business houses in Buenos Aires and two hundred and ninety-nine German, and in view of the large number of merchant importers of those

nationalities domiciled in Buenos Aires, it is evident that few manufacturers of those countries can have branches in Buenos Aires, or the total number of business houses credited to them would be very much larger. This may be better appreciated when it is realized that there are 29,690 business houses in Buenos Aires exclusive of industrial or manufacturing plants, and of this number, which included the retail establishments, 12,383 are Italian, 7,822 Spanish and 4,358 Argentine. These figures are from a recent industrial census taken of Buenos Aires, as reported in *Commerce Reports* published by the Department of Commerce.

The number of American manufacturers having their own salaried exclusive representatives permanently in Buenos Aires carrying no stock, and selling to larger houses, wholesalers chiefly, is only a trifle larger than those having their own branches. It is impossible to fix the exact number, but a liberal estimate would be seventy-five. The number of British or German exclusive representatives may be estimated as proportionately the same. If Argentina has so few branch establishments and exclusive representatives, what must be the case in smaller markets such as Chile, Peru, the Amazon district of Brazil, or even Rio de Janeiro? There are not a dozen American, British or German manufacturers who maintain their own branches with stocks in all Brazil, and less in Chile or Peru. Moreover, while in certain trades one or two manufacturers have their own foreign branches, their competitors also do a large export business. For instance, one American typewriter company has its own retail branch in Buenos Aires. Other American typewriters are equally as well-known in the Argentine market, although their distribution is done by local dealers. A famous sewing machine company has its own retail branches not only in Buenos Aires, but, seemingly, in every town of even slight importance throughout Latin America. Yet, other American sewing machine companies do a large business in the same markets.

Coöperative foreign selling agencies in non-competing lines are by no means a new thing in export, although comparatively rare. Five large hardware manufacturers in Philadelphia have such an organization. Some twenty manufacturers of printers' supplies, paper, etc., have one. That particular line is one which seemingly offers an especially good field for such a plan. There can be, of course, no legal objections to such export combinations as that.

Nor can there be any economic objection, for in theory such organizations are sound. But in practice the difficulties of securing the right personnel, overcoming the opposition of local importers, and satisfying all the constituent manufacturers, some of whom are bound to feel that their share of the sales is less than their share of the expense, are so great as to make its general success not perhaps impossible, but certainly difficult.

On the other hand, there are numerous business houses all over the world which perform practically all the functions which such an organization could, at a minimum of cost and risk to the manufacturers. These houses are firmly established, and their experience, personnel, capital and intimate knowledge of local conditions, make them by far the best channel, in most cases, for local distribution of merchandise. The Clayton Act, as has been pointed out, exempts from its provisions, arrangements between manufacturers and agents or dealers as regards export trade, and that exemption was wisely made.